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TESTIMONY REGARDING S.B. 946, AN ACT CONCERNING REVENUE ITEMS TO IMPLEMENT THE GOVERNOR´S BUDGET

Good Afternoon Senator Fonfara, Representative Berger and Members of the Finance, Revenue and Bonding Committee. I am Roger Senserrich, Policy Director at the Connecticut Association for Human Services (CAHS). CAHS is a statewide, nonprofit agency that works to reduce poverty and promote economic success through both policy and program work.

I am here to comment on the provisions on S.B. 946 implementing the Governor's budget proposal. Our position is that this proposal, as written, does not raise enough revenue to pay for services and programs that are vital for low-income families in Connecticut. This committee and the General Assembly should consider including new funding streams, eliminating tax expenditures and closing tax loopholes in order to fund these programs and avoid dramatic cuts. This new revenue will require a change on Connecticut´s spending cap, something that CAHS supports. In addition, we would like to ask this committee to reconsider some of the included revenues in the budget proposal, as they disproportionately affect low-families.

The Governor´s budge proposal, as it stands, includes $590 million in spending cuts to cover about half of the predicted deficit. More than fifty per cent of these cuts come from children´s programs[i]. These cuts include a 4.9% cut on spending in K-12 education, eliminating health insurance coverage for more than 30,000 parents and pregnant women (turning Connecticut´s Medicaid program in one of the most stringent in the country), a 9.3% cut in higher education funding, the elimination of several very successful workforce programs (STRIVE, Youth Employment) and significant cuts in a whole slew of other initiatives. In a challenging budget year, most of the cuts are falling in those that cannot challenge them and on those that are the most vulnerable.

Some of the news sources of revenue included in the Governor´s proposal and S.B. 946 also fall the hardest in low-income families. The budget delays a scheduled increased in Connecticut´s Earned Income Tax Credit[ii], and a large portion of included new revenue comes from not restoring the clothing sales tax exemption. A recent study by the state Department of Revenue Services[iii] indicates that Connecticut tax system as a whole is very regressive, with households in the lower 10% of the income distribution paying close to 24% of their income in state and local taxes, compared to the 6.4% effective tax rate faced by the top 20%. These changes would make this imbalance worse.

To avoid damaging cuts and restore the progressivity of our tax system we believe we need to look at other sources of revenue. Connecticut Voices for Children, in a report published today, has shared several new revenue options, including:

- **Raising the top marginal income tax rates for households making more than $500,000 a year:** the income tax is the most progressive form of taxation in the state´s tax code. Currently Connecticut´s top marginal rates are well below the states in our region; a modest increase (to 7%, 7.5% for incomes above one million) would only affect 2% of Connecticut households and potentially raise $300 million in new revenue. This increase will not lead to wealthy residents leaving the state; studies have repeatedly showed that tax rates are not a factor in this regard[iv].
- **Eliminating outdated tax expenditures:** the Office of Fiscal Analysis produces an annual report on Connecticut tax expenditures[v]. These are tax breaks and incentives included in the tax code to support nascent industries or promote economic activity. Many of the exemptions and deductions, however, are outdated, and have a strong financial impact on the budget. We support eliminating many of these expenditures, as well as adding an automatic sunset clause to all provisions.
  The computer and data processing exemption, for instance, cost the state more than $140 million a year. Eliminating it would raise $137.7 million enough to reverse all the Medicaid cuts. The health and athletic club services exemption would raise close to $11 million, enough to full offset the restoration of the EITC.
- **Broaden the base on the sales tax:** the sales tax currently does not cover many services like accountants or attorneys. Broadening the base to cover currently exempt services could potentially raise enough revenue to lower the overall rate, or preserve exemptions for low-income families.
- **Taxes on soda and sugar sweetened beverages:** a tax on sugary drinks would improve health; depending on how it is structured it could raise $160 million.

We understand that any revenue increases would require revising Connecticut´s constitutional spending cap. The current cap is calculated using the increase in personal income for residents for the past five years (2008-2013, as the reference is the FY13 budget). As a result, the current spending increase is calculated using the worst years of the great recession as reference, creating an exceptionally low spending cap. CAHS believes that this circumstance is enough to warrant a revision of the spending cap for this fiscal year. We are open to work with the members of the committee to evaluate possible options, and we will support the changes. In addition, a more flexible spending cap would also reduce the use of tax expenditures as a public policy tool, as the state would have other ways to create incentives other than by not collecting taxes.

CAHS believes that Connecticut needs to have a fiscally responsible state government. In order to accomplish that, however, balancing the budget is not enough: we need a state government that is able to invest on its infrastructure, on education, on giving a second chance to those that fall in hard times. It is for this reason that we encourage this committee to seek new revenue streams to make these investments possible. Thanks for your time today.

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[i] http://www.ctvoices.org/publications/impact-governors-fy-2016-budget-children

[ii] It was scheduled to be restored to 30% of the Federal tax credit; it this budget it would remain at 27.5%.

[iii] http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf

[iv] See http://www.cbpp.org/cms/?fa=view&id=3556 for a literature review. The main driver for migration outflows in Connecticut and the Northeast, incidentally, is housing prices – and middle class families are more likely to leave tan the wealthy.

[v] See http://www.cga.ct.gov/ofa/Documents/year/TER/2014TER-20140102_Tax%20Expenditure%20Report%20FY%2014.pdf for 2014´s version.